Browning, Reuben

Addenda to pamphlet on the currency considered...

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ADDENDA TO PAMPHLET

ON

THE CURRENCY,

CONSIDERED WITH A VIEW TO THE

EFFECTUAL PREVENTION OF PANICS.

BY

REUBEN BROWNING.

LONDON:
E. & F. N. SPON, 48, CHARING CROSS.

1868.

LONDON:
PRINTED BY C. WHITING, BEAUFORT HOUSE, STRAND.

COMPULSORY IMMEDIATE CONVERTIBILITY OF THE BANK NOTE A FAILURE.

THE position of the commercial world during the last crisis, was such as to lead every one to expect that not a moment would be lost by the Legislature in the endeavour to find some remedy against a repetition of so grievous a catastrophe. The observations of the Chancellor of the Exchequer, who fully sympathised in this matter with the wishes of the public, convinced the deputations to him that a timid caution restrained his immediate action in it. The consideration of the question was deferred until the opening of Parliament; nevertheless, on that occasion nothing was done; and by the existing extraordinary plethora of gold, and the consequent low value of money, it is to be feared that the subject may at least for the present be passed over. Yet the dangers inherent to the Bank Act of 1844, sooner or later will recur, and prudence suggests an alteration at once. The principal impediment to such alteration is decidedly unwillingness to abandon immediate convertibility of the bank note; on other points the majority of persons readily recognise the necessity of a change in the law; but few for a moment will abandon convertibility, although practically and confessedly it is merely partial and uncertain. They cannot divest themselves of the erroneous notion that the bank note's credit is enhanced by the sight of shining metal, regardless entirely of how small a

portion of gold is needed for the daily payments by the Bank. Compulsory convertibility, nevertheless, is the sole cause of our deplorable monetary evils, to which the commercial world—indeed, the whole nation—is so frequently subjected.

To mention non-convertibility is the signal for allusions to French assignats, greenbacks, "Russian dirty paper roubles," former Austrian and Hungarian Bank notes, even divided into fractions, or any other notably depreciated paper-money. If such a currency as these were to be really the consequence of so important a change, this spontaneous repugnance would not only be justifiable but praiseworthy. It would, however, not be the case; for the cause of the depreciation of these denounced imperfect currencies arises from the fact, that they were all *unlimited in amount*, by which circumstance, without convertibility, through excessive issues, they necessarily became depreciated. Depreciation does not exist in the well established *non-convertible* currencies of Prussia and other German States, because they are limited.

Assuredly it is not desirable that any proposed *non-convertible* currency for this country should be *unlimited;* on the contrary it is only upon the paramount principle of its *fixity in amount* that non-convertibility with prudence can ever be suggested; *for unlimited currency inexorably demands immediate payment in gold*—it is the crucial test of its value.

The inconvenience of payment in gold arises only from its susceptibility of being withdrawn for *foreign demand*, not for domestic purposes. Yet the departure of gold from this country would be of no consequence

were not our currency or Bank notes unfortunately based on the quantity of gold in the Bank. It is by this fact, of the utmost importance to us, for thereby the circulation is subjected to constant vacillation. Such a system is consequently *unlimited*, and infringes the momentous principle of fixity in its value; and while the existing law remains in force, it must be admitted that there is good reason why the note should be immediately convertible. The monetary evils consequent upon it, however, are too patent not to demand an alteration. The supreme error is, in having our issues dependent upon so volatile, so fickle a contingency as gold. This may be seen in a moment.

If a *continuous* drain of gold should arise, as the gold withdrawn is met, according to the Act, by a cancelment of the same amount of notes, it follows, that when the gold is exhausted we should have no currency at all; excepting those notes which could not forthwith be paid in gold, being issued upon the *excellent and undeniable security* of the fifteen millions due by the Government to the Bank; thus our currency would consist of that sum only.

In what state should we be, if placed with so small an amount of money, involving discount at the rate of ten, fifteen, twenty-five, or more, per cent? A stoppage (unless convertibility were given up) must ensue not only of the Bank of England, but of all other banks, as well as of our merchants and traders, ending in a complete disruption of commerce and paralysation of society. This dreadful anticipation is in accordance with the positive observation of Mr. P. H. Muntz, before the Select Committee on the Bank Acts in 1858,

No. 2935, "that the country would be in a state of anarchy before the Bank circulation would be reduced to fourteen millions."

The Government in such case must in its necessity either allow the Bank of England again to break the law, or, for the nonce, authorise *private* banks, supported on satisfactory property, to issue notes in London, and wealthy individuals would, no doubt, be found ready to unite in saving the country, by such banks upon a more rational principle, than that of the Bank of England. Six millions of notes, *payable in gold within three months*, for sake of inspiring confidence in the holders, although not of legal tender, might in such difficulty be circulated and received by the distressed community, and thus avert a horrible catastrophe.

It will perhaps be said that a continuous drain in gold is illusory—indeed that it could not happen. This is not true, for at the present moment we have before our eyes the very elements out of which such a contingency might arise. If France, Prussia, Italy, Austria, and Russia, were engaged in obstinate war (and who can say such may not shortly be the case?), gold would be required for the payment of their armies; what then might not be its price on the Continent? Their necessities in the first instance would augment it abroad, and it would continually keep rising on account of their unceasing requirements. The supposed illusory drain must then assuredly happen, as it did in former days, during the great war ending in 1815.

Instead of repudiating the possibility of a like contingency, its probability ought rather to be maintained as being an additional cause why this important ques-

tion should be settled *at once*, while there is much gold on hand, so that in such case, the country might have the benefit of a higher price than 77*s.* 10½*d.* per oz. for its gold, at which, by the Act, we are constained to let it go. This point is by no means unworthy of profound consideration.

But, with reluctance and for argument's sake only, let the probability of so desperate a case be laid aside, and let us view the subject under ordinary circumstances,—and recommend the *discontinuance of immediate convertibility of the bank note.* Let it be supposed that the whole currency be fixed at thirty millions, issued by the Bank under the guarantee of the Government, and that it should *be not immediately convertible* into gold, but that the Government should engage to pay any amount of gold required, within the space of three months. Might not this change give rise to the expectation that the Bank of England would cease to pay in gold, and be obliged once more to have recourse to one and two pound notes? Under this supposed arrangement, the immense stock of gold now in the Bank would become useless, and in consequence a large portion of it would be sold. Immediately this change in the law was known the price of gold must fall, as the artificial purchasing price of 77*s.* 9*d.* would naturally be discontinued, and the Bank obliged *to pay its notes in gold* at 77*s.* 10½*d.*, to recoup itself for the large purchases at 77*s.* 9*d.* per ounce, which by the Act it was constrained to make; there would thus be no *occasion to issue one and two pound notes for want of gold;* the holder of a £500 note, when he presented it for change, would perhaps find to his mortification that he must take half

of it *in sovereigns.* Would there then be any fear of depreciation of the note? On the contrary, it is probable that a premium would be required to obtain notes, and this plethora of gold would continue for a long time; for the sovereign, circulating at 77*s.* 10½*d.* per ounce, would never leave this country while the price of gold abroad was lower than that figure. Nothing but the continuous drain alluded to (the notion of which has above for sake of argument been abandoned) would take away our sovereigns; the state of gold in the country must then be as thus described.

There never in ordinary periods *could be a scarcity of gold in this manufacturing country.* So that no fear need arise from discarding compulsory immediate payment in gold, which has for so long perniciously harassed our commercial affairs. To maintain payment in gold, moreover, for our domestic purposes requires so small an amount, that it could be accomplished without the least difficulty.

Foreign demand for gold by the suggested change would have to be satisfied by buying it on the market at whatever premium the holders might choose to demand. Justice requires that this should be the case; if payments for loans certain produce or commodities be wanted from any country with which there is insufficient or no exchange between us, such ought to bear the additional small charge for gold, perhaps 1 or 1½ per cent., rather than that the whole commercial community be thrown into perturbation, as under the existing system.

It may be well to allude to the extraordinary anomaly that the Bank Act of 1844 was especially intended to enforce *in all cases payment in gold*, while such payment,

if *put to the test*, is always *evaded* by a suspension of the Act, whereby non-convertibility is virtually legalised, and on the other hand, were another Act of Parliament to make notes *not* immediately *payable in gold*, the result would be the reverse, namely, that we should, for reasons above stated, pay notes for domestic purposes in that metal for a long time afterwards, and probably continue the practice, as it might be observed with little or no cost, and perhaps with a profit.

The important change would conduce to a quietude in commerce and might be easily effected without prejudicial interference with the Bank of England, which by the admirable administration of its business and public service has created a large claim upon the national gratitude.

The cry against its "monopoly" is unjust—indeed a delusion. The Bank has not caused our immense evils. These have sprung from the injudicious legislation in its Charter, placing the measure of value (our currency or bank notes) in as ridiculous a position as a standard yard of thirty-six inches, made of india rubber instead of wood, which by elasticity may sometimes be thirty-four, and at others forty inches. The incongruity of this is so evident, that it would be immediately repudiated; yet for 24 years have we suffered a like pernicious principle to derange our monetary affairs, and by permitting it still to dominate we leave our commerce, suffering even now from the last panic, subject at any moment to a renewal of the same disasters.

As for the hackneyed cries for "Free Banking" and "Anti-Monopoly," the principles of the former are im-

politic, of the latter unmeaning An unlimited issue of notes by any Banker, as is often proposed, notwithstanding the deposit of Consols against the same, would effect the ruin of the country ; and as for monopoly, virtually there is none. In its deprecative quality in reference to the Bank of England, it is a mere delusion, based upon the literal meaning of the word, because forsooth the Bank of England is solely and judiciously employed as an agent for the Government for the issue of money to the public. The Mint is a similar monopoly, yet nobody complains of that. If the private banking business of the Bank were discontinued, as recommended in the foregoing pamphlet, although the sole issue of notes remained with that Establishment, the cry of monopoly would necessarily fall to the ground.

R.B.—1868.

RESULT OF THE REMOVAL OF COMPULSORY IMMEDIATE PAYMENT IN GOLD.

The result of the change may either be :—

> That Gold now in the country will fixedly remain here ; or
>
> That it will be altogether driven abroad.

Such positions will be determined by the contingencies of peace or general war in Europe.

The most probable of thesé, based upon peace, will be, that gold now in this country, will remain fixedly here. Immediately the change takes place, the first question will be, What will the Bank of England do with its thirty millions of gold, considering that the Bank of France is now also glutted with bullion? One consequence of the proposed alteration in the Bank Act, will certainly be that the Bank of England will dispose of a large portion of this gold.

Another consequence equally certain will be, that the artificial price of 77*s.* 9*d.* will no longer exist ; and a third consequence decidedly will be, that the price of gold must fall considerably, for the following reasons :—

1stly. Because the absorption of gold here in such inordinate quantities will cease by the change in the Law, which of itself is sufficient immediately to depress its price ; and the Bank having no further use for such a store, in its own interest forthwith would commence the sales above alluded to.

2ndly. The Bank of England, conformably with its

charter, has hitherto purchased all the gold presented at the fixed price, 77*s.* 9*d.* per ounce indiscriminately, whether it were wanted or not; and as but a very small portion of it could then be sold at that price here, a few sales of gold in this market would soon reduce the price below that figure.

What then will the Bank of England do with the remainder? To avoid the loss which it must sustain by further sales, whether effected in this country or abroad, the Bank will naturally require that it may be permitted to fulfil that part of the present Bank Act, which gives the right of issuing gold coin at 77*s.* 10½*d.* per ounce; and the justice of this demand is so great, that it cannot be refused. Thus, then, existing Bank notes, when presented, would be paid in gold, and by the fall in the price of that metal, £1 in gold would intrinsically be worth less than a pound; and in place of anticipated depreciation, by the change of the law, Bank notes would probably acquire a small premium, in order to avoid the inconvenience of gold. And, further, instead of the alteration causing £1 and £2 notes to be necessary, the gold so issued would be in circulation, and assuredly remain so, as long as the price continued on the Continent below 77*s.* 10½*d.* per ounce—a most probable contingency.

To gold worshippers this may be hailed as a happy circumstance, but it is not without its inconvenience in the proposed system, independently of the risk, trouble, and expense to the public; for it must be remembered that the principal object of the change in the law is to establish a fixed amount of currency or Bank notes in circulation, so as to prevent sudden changes by contraction or expansion of issues, which is the *incipient cause of panics.* Now, if notes be thus paid in gold, the sovereigns will remain in their depreciated position in the hands of the public, and so much more be added to the money in circulation.

To obviate, therefore, any such undue increase of money, the prejudicial effects of it must be counteracted by diminishing proportionately the issues of the new inconvertible paper, until the whole of the former notes are withdrawn from the public. So that, instead of issuing thirty millions, perhaps twenty in the first instance may be sufficient, on account of these extraordinary issues of gold.

The Government might assist the Bank in relieving it of five millions of gold, against a like amount of the inconvertible notes. Such gold to be held to meet any probable demand from holders of notes, required within three month's notice, as suggested in the proposed system.

The contraction of issues from thirty millions new currency to twenty-five millions, on account of the increased quantity of metallic money thus forced into circulation, would diminish the profits of the Bank of England. This loss, therefore, must be considered in the manipulation of the matter, which is one of the small difficulties, naturally to be expected as inherent to so important a change as that from an imperfect convertible currency to a perfect inconvertible one.

The second position assumes that the alteration will drive all the gold abroad. The prediction that such would be the case has been urged prominently by the advocates of the Bank Act of 1844.

Let us see how it can be realized.

If the contingency happen that the state of Europe regarding peace continue in the ordinary position experienced for the last forty years, gold must, as before stated, remain fixedly in this country, for the reasons just stated; while, should the immense armies now existing, by some unfortunate circumstance, be brought into collision, and a general war ensue, *nothing could prevent* the departure of gold to pay the troops, for, like water, gold will find its level; so that at the spot where it is most wanted, the highest price for it will be obtained.

It may be remarked here, that since the Act of 1844 we have never yet felt the full force of the injury to which that Act subjects us, by basing our issues on gold.

It is only by a general Continental war, no matter whether Britain be engaged in it or not, that we can experience this evil, for then certainly we should be reduced to the state of the period of 1790 to 1815, when there was scarcely a guinea left in the country.

Under that perplexing circumstance, however, the proposed alteration from convertibility will prove a great advantage, for this country would receive a premium in the sale of its gold, contradistinguished from the existing system, whereby it would all depart at the fixed price of 77*s.* 10½*d.* per ounce. So that the benefit by the change would be double. We should obtain a profit on our gold, and at the same time avoid the grievous injury of the Continental interference with our currency, which, under our present system, happens whenever even but a small portion of gold is withdrawn.

The opportunity at this moment is of such supreme

importance, that, if not seized upon, it will hereafter sooner or later be a source of bitter reflection to the statesman to whom this warning may be given, who neglects to profit by it.

On the one hand we have a practical solution of a subtle and an excessively important question. By the alteration gold would be retained in the country, or if it leave, a premium according to its value, will prevent loss. On the other hand, if there be no change, we must expect most certainly continuance of our periodical commercial calamities, interruption to manufactures, and loss to the revenue; these, too, with the possible contingency of a European war, whereby we shall assuredly be compelled in the end to adopt non-convertibility, as from 1797 to 1815, after our gold has left us at a loss—*i.e.* at 77*s.* 10½*d.* per ounce.

"—Carpe diem quàm minimùm credula postero."

R. B.—1868.

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